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CASE STUDY ON INTERNATIONAL BUSINESS STRATEGY FOR *LLORENTE & CUENCA*

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Abstract

The present Work Project consists in a Case Study and the respective Teaching Note about the Internationalization Process in Latin America of *Llorente & Cuenca*. The Case Study is focused on the company's three most important internationalization stages and how they are connected with the evolution of the public relations industry and the Latin American markets. The main teaching objectives that can be extracted from the Case Study are: motives, location and timing to internationalize; the *Blue Ocean Strategy*, entry modes; environment analysis and global strategy and international human resources management. The Work Project can be useful in undergraduate and graduate courses of strategy and international business, since it illustrates a real example of how different strategies apply to different internationalization stages.

KEYWORDS: *Llorente & Cuenca*, Internationalization Strategy, Latin America, Public Relations

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Case Study: *Llorente & Cuenca*'s Internationalization Process in Latin America

Founded in 1995, in Spain, *Llorente & Cuenca* is the leading communication and public affairs' management consultancy company in Spain, Portugal and Latin America. The company's internationalization process in Latin America can be divided in three game changing moments. Firstly, *Llorente & Cuenca* expanded in the region by following key clients throughout the promising and unexplored markets of Latin America, offering a disruptive value proposition and opening offices from the ground up. Secondly, aspiring to become the market leader in Latin America, the company decided to target the largest and most competitive markets of the region. And finally, *Llorente & Cuenca* complemented its traditional organic growth strategy with a considerable number of acquisitions.

In the world of today – where communication is endless and Latin America cannot be compared to what it was 20 years ago – *Llorente & Cuenca* is facing again a key moment to rethink its international strategy. A changing competitive environment is pressuring the company to move from its comfort zone and an acquisition made by the company in the United States of America (USA) seems to reflect precisely this. Can the expansion in the USA give answer to the challenges *Llorente & Cuenca* is facing today? What does the future hold?

COMPANY OVERVIEW

Llorente & Cuenca is the leading communication and public affairs' management consultancy company in Spain, Portugal and Latin America (see **Appendix 1**), ranked as 44th and 49th in terms of global revenue according to the *PRWeek's Global Agency Business Report 2018* and *The Holmes Report's Global Ranking 2018*. Since its creation in 1995, in Madrid (Spain) the company developed an extended offer of services in different areas (see **Appendix 2**) and can be characterized by 3 key success factors – entrepreneurship, international expansion and innovation – and a clear propose of improving the world (see **Appendix 3**).

One of the main commitments of *Llorente & Cuenca* is the expansion of its Latin American operations, first launched in Peru back in 1998. Currently, the company operates in 13 countries (Spain, Portugal, Argentina, Brazil, Colombia, Cuba, Chile, Dominican Republic, Ecuador, Mexico, Panama, Peru and the USA) through 15 offices. Also, it offers services in another 10 countries through affiliated companies: *CLC Comunicación* (Costa Rica, Guatemala, Honduras, El Salvador, Nicaragua and Belice), *Rodríguez & Baudoin* (Bolivia), *News Comunicación Corporativa* (Paraguay), *Quatromanos* (Uruguay) and *Grupo Open Mind* (Venezuela) (see **Appendix 4**).

Nowadays, Latin America accounts for about 60% of the company's total turnover (see **Appendix 5**), representing a very important growth point for the business. As a global firm, *Llorente & Cuenca* has the capacity to manage transnational projects all over the world, thanks to an extensive network of offices and strategic allies. The team of *Llorente & Cuenca* is integrated by 21 partners and more than 600 professionals who provide strategic communication consultancy services to companies in all business sectors (see **Appendix 6**), targeting the Spanish and Portuguese speaking markets. In 2017, the company achieved 36.349.000€ in revenues (see **Appendix 7**).

INDUSTRY OVERVIEW

“Public Relations was initially about getting the word out to journalists and the media about a client's accomplishments, their sponsored events and new product launches. Those things are still done but now the media is a very different animal.” (Torossian 2018). The public relations (PR) agency industry regards to companies that manage how information spreads between their clients (organizations) and audiences – it is a business-to-business service. The main objective of PR agencies (communication consultancies are included in this designation) is to offer strategic communication services in order to build a positive reputation for clients and a mutual beneficial relationship with their stakeholders.

Some of the areas approached by the companies competing in this industry are: media relations, community relations, corporate and social responsibility, public affairs, crisis management, social media, employee relations and integrated marketing and communications (Bright Network n.d.). According to the report *Public Relations* (Statista 2018), the worldwide PR agency industry's revenue is expected to grow from 14 billion USA dollars generated in 2016 to approximately 19.3 billion by 2020. The top 5 players in the industry are: *Eldman*, *Fleishman-Hillard*, *Ketchum*, *Webber Shandwick* and *Burson-Marsteller*.

LLORENTE & CUENCA: A STORY OF ENTREPRENEURSHIP

Foundation

In 1985, José Antonio Llorente – an expert in corporate and financial communication – began working at *Burson-Marsteller Spain* – a worldwide recognized American PR company and the market leader in Spain. For ten years he developed his professional career inside the company, starting as an Account Executive and climbing all the way up until becoming the company's Managing Director. In a similar path, Olga Cuenca – a medical psychiatrist – spent five years (1990-1995) working for the same American multinational and reached the position of Manager of the Health Division. During their years of work at *Burson-Marsteller Spain*, José Antonio Llorente and Olga Cuenca were able to acquire deep knowledge about the industry, to experience a truly international culture and to build a renowned reputation as professionals.

Having achieved such high positions at *Burson-Marsteller Spain*, the two managers began to feel that they could not take their involvement in the company to the next level. Both José Antonio Llorente and Olga Cuenca were part of the highest business decisions of the company and they believed that further professional realization could only come from owning the outcomes of these decisions. Thus, they decided to present to the shareholders of *Burson-Marsteller* the idea of making the managers become partners of the firm. However, *Burson-Marsteller* failed to meet their vision.

In 1995, José Antonio Llorente and Olga Cuenca left their jobs at *Burson-Marsteller Spain* and embraced the adventure of starting up their own project as equal partners. In this moment *Llorente & Cuenca* was born – the today’s leading communication and public affairs’ management consultancy company in Spain, Portugal and Latin America.

A “people company”

Llorente & Cuenca is a “people company” – the entire business model is based on the talent and experience of its professionals. Therefore, long-term career development is crucial to achieve the company’s growth and leadership objectives. When José Antonio Llorente and Olga Cuenca first idealized the project, they had a very clear perspective on how to attract and retain the best talent in the market – “*You need to treat talent in a very special way, you have to involve them in the key decisions of the company, you have to make them responsible for the good and the bad. And, in my view, this can only be achieved by making our professionals real owners of the decisions.*” (Llorente 2018). And so, the two entrepreneurs designed a model that would make this possible.

The *Partnership Model* started with a 50/50 partnership between the two founders – a clear message that decisions would be based on their agreements and that disagreements would have to be solved by finding common ground. José Antonio Llorente and Olga Cuenca believed that working in team and mixing different opinions were the main drivers of value creation for *Llorente & Cuenca* and its clients. Thanks to the *Partnership Model*, becoming a partner is a challenge within the reach of all the professionals at *Llorente & Cuenca* and it is a privilege attributed to outstanding individuals who demonstrate to have a strategic vision, excellent performance and a sustained contribution to the success of the company. Nowadays, the firm accounts a total of 21 partners – 19 professional partners and 2 financial partners – which ensures extra stability and loyalty in all business operations.

Llorente & Cuenca's successful performance would not be possible without having the right people on board since decisions heavily depend on the team's availability and willingness to take risks. One of the key strategic ingredients in the company's internationalization was to always have a professional up to the challenge, ready to move to a new country and to develop the operation there. Along with the investment in local talent, the company was able to foment a strong and alike culture in all its offices, so that each professional feels as a true employee of *Llorente & Cuenca* no matter where in the world. One example is the fact that all the company's offices have the same furniture, light and colours. Over the years, the company grew from being an entrepreneurial project formed by 3 people, to an international company with more than 600 employees today (see **Appendix 8**).

LATIN AMERICA: A DIAMOND IN THE ROUGH

Latin America in the 90s

José Antonio Llorente and Olga Cuenca had a very well defined goal when they first started *Llorente & Cuenca*: to expand to Latin America and to become the market leader in the region. After the so called "lost decade" (1980s), during the 1990s, Latin America experienced important changes for the better. Generally speaking, state-controlled industries started to become privatized, exports and foreign investment were increasing and democratic and economic reforms were taking place, mainly regarding liberalization and deregulation. The different policy initiatives had the goal of increasing the attractiveness of the region to the eyes of international investors. Nevertheless, "*such favourable developments were tempered by the bad – Latin America's continued vulnerability to external economic shocks, a tepid and volatile record of economic growth, continued poverty and income inequality, and the weakness of the region's public institutions.*" (Naím and Lozada 2001). Thus, at that time, not all could foresee the huge potential ahead of the region.

“Economic growth, democratization, changing media environments, and increasing consumerism were creating opportunities for public relations in Latin America.” (Freitag and Stokes 2009). In the 90s, the offer of PR agencies in the region was very poor and divided between two different types of companies. On one hand, there were the small local companies. These companies had a very deep knowledge of the country context and an extended network among people and the media, but offered underdeveloped services with low access to technology and lack of management skills, strategic vision and understanding of the market trends. And on the other hand, there were the big international firms of the industry. These companies offered in their main markets a well-developed methodology, strategic vision and strong management structures, but were not focused in Latin America and ended up serving this region through affiliates that did not provide the most appropriate services.

A middle ground solution

“There are marked differences in culture, expertise, approach and a host of other criteria between big and small agencies, which can materially impact employee and client experiences alike.” (Faugno 2018). *Llorente & Cuenca* identified an opportunity to enter in Latin America by providing an offer “in the middle” of the two existing extreme types of companies – *“That is a benefit to firms in the middle market: large enough to provide integrated services, small enough to be nimble and flexible and entrepreneurial.”* (Sudhaman 2018).

To do so, the company benefited from two crucial competitive advantages. Firstly, as a Spanish company, it shared cultural proximity and linguistic similarity with Latin America. Using a Spanish name, *Llorente & Cuenca*, allowed this differentiating factor to stand out clearly. Secondly, the company believed that it could bring to Latin America something that was missing at that time: a strategic approach to communication. As a European firm founded by two previous managers of a worldwide recognized American multinational, *Llorente & Cuenca* could offer to the Latin American market the methodology of its competitors in the

Anglo-Saxon markets – where communication was understood strategically, there were high quality services and the competition was strong. *Llorente & Cuenca's* positioning as a communication consultancy helped reinforcing the mentioned aspect.

Having figured out “where to go” – Latin America – *Llorente & Cuenca* designed a strategy that combined both “how to go” and “what to add” – bringing the most developed methods to markets that were not yet explored and where it could penetrate easily by having low cultural barriers and better understanding of the market when compared to its competitors. The company's service offer was at par with other international companies in terms of methodology, quality and strategic approach, but, similarly to the small local companies, *Llorente & Cuenca* was fully focused and dedicated to grow in Latin America, having a long-term perspective, attracting the best talent, understanding the context and building an extended network in the region.

First step in Latin America

At its creation, *Llorente & Cuenca* had only three people – the two entrepreneurs and an employee – and so they believed that clients who would require the company's services would be expecting to work directly with José Antonio Llorente and Olga Cuenca. Therefore, they decided to name the company after themselves – as a reflection of their personalities and recognized professional competences in the industry. Their strong and consistent reputation as previous top managers at *Burson-Marsteller* was, at that time, part of *Llorente & Cuenca's* brand value and differentiating factors.

When the firm was just 2 years old, in 1997, the two founders decided to go to New York to do a sales pitch and to win a project for *I.B.M. Argentina*, referring to a reputation crisis “when *I.B.M.* was accused of paying bribes to obtain a \$250 million contract to modernize the computers of the state-owned *Banco de la Nacion*.” (Sims 1996). At that time, *I.B.M.* was looking for the help of an international and opened minded team in order to avoid a biased

analysis of the problem and to ensure that there were no connections with the people responsible for it. Contrary to most businesses at that time, *I.B.M.* believed in a strategic approach to reputation crisis: the “know-how” was more important than the “know who”. So, instead of looking for the most famous and well connected company in the industry, the company hired *Llorente & Cuenca* for its recognized management crisis capabilities. This client was the perfect opportunity for *Llorente & Cuenca* to step into Latin America and to initiate its network in the region. Targeting clients with an identical mentality to *I.B.M.*, allowed *Llorente & Cuenca* to put into practice its internationalization plan.

When in Argentina, *Llorente & Cuenca* began to learn about the PR agency industry in Latin America. And, in 1998, an opportunity to travel to Peru to participate in a conference about the world of reputation appeared in the desk. Having the mind set in the future, the company immediately accepted the challenge. At that time, organizations had first started to talk about reputation and its impact in business results. Before that, reputation was seen as a secondary and optional dimension of a business – a company could decide whether to have it or not – and PR agencies were seen as merely communication channels.

During this conference, *Llorente & Cuenca* had the opportunity to meet and share its ideals with 12 highly recognized companies in Peru. One of these companies, *Backus & Johnston* – the main brewery in the country – hired *Llorente & Cuenca* to develop a brand recovery for a product line. Following this event, *Llorente & Cuenca* decided to open an office in Lima, Peru – the first operation of *Llorente & Cuenca* in Latin America.

LATIN AMERICA: THE RIGHT PLACE AT THE RIGHT TIME

The Secondary Markets

From 1998 to 2007, *Llorente & Cuenca* maintained a strategy based on following key clients throughout Latin America and taking advantage of the opportunities that arose without hesitation. As a result, the company opened several offices financed only by internal

development (Greenfield investments). In 1999, one year after being established in Peru, the office in Argentina was founded. And by 2000, *Llorente & Cuenca* had built the operation in Bogotá, Colombia, based on a similar ground: following *Philip Morris* – a cigarettes and tobacco manufacturing company – for a crisis related with contraband. After Colombia, also Panama and Ecuador's operations started thanks to a client – *BellSouth*, a telecommunications company – which later allowed *Llorente & Cuenca* to undertake projects in Nicaragua and Guatemala.

This client centric strategy was the motor of the first growth movement of *Llorente & Cuenca*. The goal was never to open offices in specific and pre-defined countries, but instead to fully bet on helping clients, solving their problems and following them to the different markets where they needed help. Thanks to this strategy, the company could build an important presence in the countries it considered as the “secondary markets” of Latin America – where competition was still low and where a lot of work was yet to be done regarding new solutions and improved services. Nowadays, *Llorente & Cuenca* is ranked among the top 3 competitors in Argentina, Peru, Colombia, Panama and Ecuador.

The Primary Markets

Having achieved such great success and acquired valuable experience and reputation in the secondary markets of Latin America, *Llorente & Cuenca* realized that the next step should be to expand to the “primary markets”: Brazil and Mexico. According to the *World Investment Report* of 2008 (United Nations 2008), in 2007, foreign direct investment flows in the region achieved a record level of \$126 billion, where Brazil and Mexico represented the biggest sources. Additionally, these two markets accounted for the highest GDPs in Latin America (see **Appendix 9**). Therefore, only with a significant presence in both Brazil and Mexico, the company could achieve its goal of becoming the most influential communication consultancy in Latin America.

“Brazil and Mexico provided a level of public relations development on par with other industrialized, privatized markets throughout the world.” (Freitag and Stokes 2009) – resulting in a much tougher competitive environment to stand out due to the number of alternatives available. Consequently, *Llorente & Cuenca* faced a far bigger challenge than it was used to. Despite that, in 2007, *Llorente & Cuenca* decided revolutionize its past client centric strategy and to open an office in Mexico City, Mexico, from scratch – without any client. Only one year after, the Mexican operation was already ranked within the top 10 companies in the market, according to the *Merca 2.0* magazine. Today, *Llorente & Cuenca* is the second biggest player in Mexico. Hence, inspired by the mentioned success, in 2008, *Llorente & Cuenca* applied the same plan to open the office in Rio de Janeiro, Brazil.

Both Mexico and Brazil demanded a lot more effort than any of the secondary markets. A foreign company could not be successful in these two countries by simply offering a better value proposition – it was necessary to generate a critical mass in order to compete with the large local players. As a consequence, *Llorente & Cuenca*’s Brazilian operation tackled further obstacles on its way to grow and to stand out among the numerous competitors. Not only the language barrier (Portuguese) was new for the company in Latin America, but also, culturally speaking, Brazil was significantly different when compared to the other countries in the region. As a result, by 2011, the company came across a crucial question: could external growth facilitate a faster penetration in Brazil and foster the next international moves?

External Growth

Llorente & Cuenca had been growing organically for about 15 years which made this an extremely hard decision for the company. However, mixing its traditional Greenfield strategy with a boost of external growth appeared to be a promising move towards becoming the market leader in Latin America. The main objective would be searching for synergy realization with other key similar and complementary companies in the industry. Not only the

company would be able to speed up the internationalization process, but also to overcome some of the existing entry barriers and to offer enhanced services to clients. Thus, *Llorente & Cuenca* decided to implement an acquisition strategy, which would allow the company to acquire specialized talent, extended customer bases and new service solutions.

But the main question was: how to find the financial resources to afford this decision? And in 2011, when one of the two founders, Olga Cuenca, decided to leave the company, an opportunity to let in a new partner, who could enhance the financial capacity of the company, arose. Following this event, in 2015, *Llorente & Cuenca* welcomed a French private equity company *MBO Partenaires* as a shareholder, holding an effective 22% of the Group and injecting 6,350,000€ into the capital. As explained in the company's annual report of 2015, "*a full 100 percent of this economic investment was aimed at speeding up the acquisitions policy in Latin America, Spain and Portugal, with the goal of strengthening our leadership in the countries where we already operate and entering new markets in an industry that is increasingly professional, interconnected and global.*" (Llorente & Cuenca 2015).

In 2011 and 2014, *Llorente & Cuenca* made 2 acquisitions, in Portugal and Chile respectively, in order to start the operations in these countries. After the incorporation of *MBO Partenaires* into the Group, in 2015, *Llorente & Cuenca* made 2 additional acquisitions in Spain: the acquisition of 60% of *Cink* – as a commitment to technological innovation and digital transformation – and 70% of *Impossible Tellers* – as a commitment to delivering effective and innovative solutions and methodologies for content creation. By the end of the same year, the company also acquired 70% of *EDF Communications* in Miami, USA, the first step towards *Llorente & Cuenca*'s North American expansion. Finally, in 2016, the company acquired a 70% stake of the Brazilian company *S/A Comunicação* – a strategic move to boost *Llorente & Cuenca*'s position in the Brazilian market, one of the most competitive markets in the region.

Today, *Llorente & Cuenca* is the number one player in Spain and Portugal and it is ranked within the top 5 companies in Miami (USA), the top 10 in Chile and the top 15 in Brazil

All the mentioned acquisitions made had a multiplication effect in *Llorente & Cuenca*'s growth (see **Appendix 10**) and market shares – by having access to new markets, extended customer bases and new solutions. Likewise, a stronger financial capacity, allowed the company to reinforce the team, to increase capabilities, to improve the offices, to purchase new technologies and to exponentially increase the investment in different necessary components of the business (see **Appendix 11**). Nevertheless, the external growth of *Llorente & Cuenca* accounts only for 25% of the total growth. The company's main focus has always remained the organic growth (see **Appendix 12**).

THE WORLD OF TODAY

Public relations industry today

Over the past 20 years, communication has changed significantly, mostly due to the impact of digitalization. The biggest revolution happened when the world shifted from communication as a one-sided source for consumers to communication as a two-sided platform, where everyone can give inputs – everyone has a voice. *“Today, the public scrutinizes the behaviour of every individual and every business, and delivers real-time feedback through social media. Even the hint of unethical behaviour can result in getting fired, being arrested or going bankrupt.”* (USC Annenberg 2018). *“(…) It has become more evident that people prefer to deal with organisations that they believe are not only there to make a profit, but have moral, ethical and philanthropic responsibilities.”* (Leaf 2013). As a result, organizations are paying more and more attention to reputation and looking for better solutions to manage customers' perception of their brands.

Hand in hand with this phenomenon, public relations agencies saw their services gaining an amplified importance for governments, organizations and individuals. Clients are

progressively increasing the weight of communication and reputation in their decisions – “*One promising thing for the PR field is that, in most cases, clients are willing to pay what they feel is necessary to meet their objectives. However, at the same time they have become far more demanding.*” (Leaf 2013). In the USA for example, according to the report *Public Relations* (Statista 2018), in 2016, 46% of large companies engaged in PR activities and 19% hired an external agency to handle them. As for medium and small enterprises, 31% invested in PR and 15% stated that PR was the marketing tactic they most relied on to grow their businesses.

PR services are becoming increasingly vital for organizations and part of their management decision-making. One evidence of this is the fact that strategic management is the most valued skill by PR professionals today (USC Annenberg 2018). This brings the opportunity for companies such as *Llorente & Cuenca* to diversify their services – developing new fields of specialization and offering new solutions, products and tools. One consequence is the possibility for PR agencies to reposition themselves closer to management consultancies – which are known to be more valued by organizations. By doing so, PR agencies face the challenge of enlarging the spectre of competitors and benefiting from charging higher fees.

Nevertheless, this strategy can put a higher pressure in the public relations agencies’ teams of professionals, who will need to have the necessary skills to continue working in this changing environment. Additionally, they will need to understand the language of the clients’ managers in order to become advisors of the highest business layers in organizations. Considering the importance of human resources for companies like *Llorente & Cuenca*, the biggest challenges faced nowadays are intrinsically connected with it (see **Appendix 13**).

Latin America today

While developed economies are recovering from the impact of the global financial crisis in 2008, Latin America assisted to an alarming deceleration in growth (see **Appendix 14**). A period of political and economic transition is taking place, mostly due to declining fertility rates,

the end of the commodity boom and the risk of increased protectionism (Cadena, et al. 2017). This reality was particularly felt in 2016, when the region registered a negative GDP growth of -0.6%. However, only one year after (2017), Latin America's growth picked up to 1.3% and by 2020 forecasts predict it to be approximately 2,7%. This fast recovery seems to be supported by a favourable external environment and the end of the recessions in Argentina and Brazil. Even so, uncertainty and risk remain high for Latin America's long term outlook. (International Monetary Fund 2018).

This change in macroeconomic scenario may be critical for companies largely focused in Latin America. For *Llorente & Cuenca*, for example, the region accounts for about 60% of the total turnover. Although there is still potential for further internationalization in the region and to increase the presence in the existing markets (Brazil and Chile for example), the truth is that the golden years of the region are suspected to be over. Considering that growth has always been the main driver of *Llorente & Cuenca*'s success, it is crucial that the company ensures that each operation continues to grow year after year. Furthermore, this is intrinsically connected with the company's goal of retaining the best talent and sustaining the *Partnership Model* – without growth there is no extra value for the partners to capture.

Llorente & Cuenca and the USA

The changes in the competitive global environment are bringing once again the need for *Llorente & Cuenca* to restructure its strategy. The company always forecasts a 3 years' strategic plan with very concrete objectives to develop the business and to catch new opportunities. As for the period of 2017-2019, in the annual report of 2017, *Llorente & Cuenca* defined a client-centric strategy– “*We are facing 2018 with new challenges ahead of us, driven on, expectant and with a clear goal, our clients.*” (Llorente & Cuenca 2017). By building its strategy around clients, *Llorente & Cuenca* intends react to the two mentioned shifts in the world of today: the increasing importance attributed to PR and the deceleration of Latin America's growth.

The acquisition of *EDF Communications* in Miami, USA, in 2015, seems to be a radical move to react to a radically changing business environment. Despite facing bigger challenges – such as cultural fit and intensity of rivalry – *Llorente & Cuenca* is now present in the largest market for public relations worldwide. In the USA alone, PR agencies generated revenues of 13.5 billion USA dollars in 2016 (see **Appendix 15**). Due to geographical proximity and the attractiveness of Latin American markets, USA-based organizations are highly interested in investing in Latin America. Thus, *Llorente & Cuenca*'s expertise and extended network in the region can be precious for clients in the USA who want to do business in Latin America.

Moreover, the USA hosts the ultimate technologies, methodologies and knowledge available in the industry. *Llorente & Cuenca*'s acquisition and expansion in this market puts the company in a strategic position to diversify and improve its service offer – by being nearer to the most relevant competitors in the world and therefore better understanding how the industry evolving. *Llorente & Cuenca* is nowadays a three language company (Spanish, Portuguese and English) and aspires to continue expanding in the North American market. The company already has operations in Miami, New York and Washington, DC.

WHAT IS NEXT?

Llorente & Cuenca's path can be described by the ability to quickly adapt to market conditions in an industry that was not fully understood in the past. Not only the company approached the market in a competent way, but most importantly it understood the right timing and location to do it. In the world of today, however, the biggest challenge is not figuring out “where and when to go”, but instead “how to go” and “how to sustain” competitive advantage. To keep leading, *Llorente & Cuenca* needs to continue analysing the pace of the industry and predicting the upcoming challenges of the clients – always being one step ahead of the competition. The only question left is: what are the next steps of *Llorente & Cuenca*'s internationalization process?

Teaching Note

CASE SYNOPSIS

The Case Study provides an overview of the internationalization strategy of *Llorente & Cuenca* in Latin America, as well as refers to the importance of managing human resources in a professional services' company. The company's successful expansion combined a mix of entrepreneurship, innovation, planning and catching opportunities and can be divided into 3 key stages of internationalization (see **Appendix 16**).

The first stage started in 1997 when *Llorente & Cuenca* followed key clients throughout the secondary markets of Latin America and grew organically by opening offices. Today, the company is ranked within the top 3 competitors in Panama, Peru, Argentina, Ecuador and Colombia. The second stage refers to the year of 2007, when *Llorente & Cuenca* decided to target the primary Latin American markets – Mexico and Brazil – and to open the first 2 offices without any prior deal with clients. In Mexico, this strategy worked out very well and *Llorente & Cuenca* today is one of the top 3 competitors in the market. As for Brazil, growth did not happen so fast and the idea of mixing the organic growth with external growth arose – bringing the third and last stage of internationalization. From 2011 until now, *Llorente & Cuenca* made acquisitions in Spain, Portugal, Chile and the USA. Today, *Llorente & Cuenca* is the number one player in Spain and Portugal and it is ranked within the top 5 companies in Miami (USA), the top 10 in Chile and the top 15 in Brazil.

Finally, the Case Study gives an introduction about the changes in the competitive environment that *Llorente & Cuenca* is facing. On one hand, the evolution in the way society communicates is bringing a huge opportunity for PR agencies to improve their value propositions and consequently to price higher. But on the other hand, Latin America's future is highly uncertain and growth is decelerating.

The Case Study ends with an open discussion about how *Llorente & Cuenca* can give an active response to these changes and leaves the hint that the USA market is a possible answer to this question – hosting the vanguard of knowledge and growth. However, the next steps of *Llorente & Cuenca*'s internationalization process are not disclosed to students.

CASE OBJECTIVES

The Case Study covers a complex, diverse and successful internationalization process and consequently a broad variety of strategies and perspectives can easily be brought up for discussion. The Case Study is suitable for use in both undergraduate and graduate courses of strategy and international business. In the following, the most relevant teaching objectives are summarized:

1. Motives, location and timing of the internationalization process (Why?, Where?, When?):

The Case Study is helpful for students to understand some of the reasons why firms internationalize, the factors affecting the selection of the target countries and the importance of timing of entry.

Suggested readings: Pages 75-81 – Rugman, Alan M., and Simon Collinson. 2009. *International Business*. Person Education.

Papadopoulos, Nicolas, e Oscar Martín Martín. 2011. "International market selection and segmentation: perspectives and challenges." *International Marketing Review*: 132-149.

2. Blue Ocean Strategy: The Case study can be a good practical example of a company that created new market space and made competition irrelevant.

Suggested reading: Pages 3-48 – Kim, W. Chan, e Renée Mauborgne. 2015. *Blue ocean strategy, expanded edition: How to create uncontested market space and make the competition irrelevant*. Harvard Business Review Press.

3. Entry mode strategies (How?): The Case Study can be used to discuss how to enter a foreign country or region and how to grow. *Llorente & Cuenca*'s example is particularly good to discuss the reasons behind the decision to grow organically and externally.

Suggested reading: Pages 30-56 – Gomes, Emanuel, Yaakov Weber, Chris Brown, and Shlomo Yedidia Tarbe. 2011. *Mergers, Acquisitions & Strategic Alliances: Understanding the process*. Palgrave Macmillan.

4. Environment analysis and global strategy: Another teaching objective from the Case Study relates to an analysis of the PR industry and the Latin American market in general and the strategic choices *Llorente & Cuenca* and its competitors face to cope with the changes and competitive pressure.
5. International Human Resources Management: Finally, the Case Study is a true example of how managing talent and culture in an efficient way is relevant to the internationalization strategy of a professional services' company.

Suggested reading: Pages 371-375 – Rugman, Alan M., and Simon Collinson. 2009. *International Business*. Person Education.

ASSIGNMENT QUESTIONS

1. Critically evaluate the company's decision to internationalize first to Latin America.

In the 90's, *Llorente & Cuenca* – a Spanish company – decided for its main target market an entire region, Latin America, with which the company shared cultural proximity and linguistic similarity, allowing the business operations to have a common ground. Moreover, the company took into account other factors that enhanced the overall attractiveness of Latin American markets at that time. As detailed in the Case Study, the long-term growth rate was expected to increase, the countries risk was decreasing even if still considerable, the intensity rivalry was low and the government incentives were increasing significantly.

Llorente & Cuenca looked at Latin America as a diamond in the rough – a region with great potential that other competitors could not foresee. This vision for the region allowed the company to benefit from early mover advantages. Firstly, *Llorente & Cuenca* was able to quickly gain market power thanks to a strategic time-to-market and low cultural barriers.

Additionally, by catching pre-emptive opportunities, *Llorente & Cuenca* became the market leader in the region and sustained until today a notable brand reputation.

2. It can be said that *Llorente & Cuenca* applied a *Blue Ocean Strategy* by expanding to Latin America in the 90's. Explain why and how by making reference to the company's competitive strategy.

Applying a Blue Ocean Strategy implies getting away from “red oceans” by finding a “blue ocean” of uncontested market space. In the 90s, *Llorente & Cuenca* was able to do precisely this in Latin America. As described in the Case Study, the offer for public relations agencies was poor and divided between two very different types of companies: small agencies (“red ocean”) and big multinational companies (“red ocean”). Therefore customers had available either a very personalized service, based on contacts (know-who) and understanding the countries context, or a very distant but yet strategic service (know-how) through affiliates of multinationals that were not actually physically present in the countries.

The huge gap in the market represented an opportunity for *Llorente & Cuenca* to reach beyond existing demand and to attract the non-customers. To do so, the company redefined the elements of customer value and originated a new and unique value curve with a divergent shape compared to competition and a focus on know-how and countries context. Besides, *Llorente & Cuenca* could differentiate itself from most competition by positioning the brand as a communication consultancy company (see **Appendix 17**).

To sum up, *Llorente & Cuenca*'s competitive strategy passed by finding a middle ground position (“blue ocean”) that allowed the company to pursue a differentiation strategy and to make competition irrelevant – capturing additional value. The company's offer was based on the same methodology, quality and strategic approach of the big multinationals in their main markets but, as the small local firms, *Llorente & Cuenca* was fully dedicated to grow in Latin America, having a long-term perspective, attracting the best talent, understanding the context and building an extended network in the region.

3. Describe *Llorente & Cuenca*'s motives and strategy to expand in the secondary and primary markets of Latin America.

Llorente & Cuenca's internationalization process was motivated by market-seeking reasons in both the secondary and primary markets of Latin America – always with the objective of gaining access to new markets or opportunities (see **Appendix 18**).

In the secondary markets, from 1995 to 2007, the company expanded successfully by following key clients from Argentina to Peru, then Colombia, Panama and Ecuador – a reactive strategy driven by clients' travels, unexpected opportunities and the favourable growing conditions of the region. At this stage, *Llorente & Cuenca* had no predefined countries to target, but instead the company's focus was on trying to close deals with key clients and to help them achieving the business objectives.

After acquiring a substantial presence in the mentioned markets, *Llorente & Cuenca*'s strategy changed even if the motives were still market-seeking related. In 2007, the company decided to target the primary markets of Latin America (Brazil and Mexico) in order to compete with key rivals in their own markets – a proactive strategy seeking the high-growth markets in the region. Therefore, at this stage, *Llorente & Cuenca* targeted two predefined countries independently of having or not deals with clients there.

4. Critically evaluate the motives behind *Llorente & Cuenca*'s acquisition strategy.

Entry modes refer to the ways a company can enter a country in order to achieve the strategic goals linked with its presence in that country. 75% of *Llorente & Cuenca*'s growth was sustained by organic growth, since the company entered most countries by opening offices from the ground up – Greenfield investments. However, in order to achieve the goal of becoming the market leader in Latin America, *Llorente & Cuenca* mixed its internationalization strategy with a 25% stake of external growth – acquisitions.

Llorente & Cuenca entered Portugal, Chile and the USA through acquisitions and boosted Brazil's operations thanks to an acquisition as well. These were the most difficult markets to enter due to cultural distance and the level of rivalry of those markets. So acquiring local businesses allowed the company to speed up the process up the process and to overcome some of the existing entry barriers. The additional reasons behind these strategic decision, were: to achieve growth, to increase market power (sales volume), to acquire resources (trained personnel and management), to acquire capabilities (technology), to acquire capacity (customer bases), to acquire knowledge (methodology) and portfolio transformation (diversification of services).

5. The Case Study describes what is changing today both in the public relations agency industry and in Latin America. How can this reality be connected with the current expansion of *Llorente & Cuenca* to the USA? In addition, discuss some of the main challenges the company may be facing.

The expansion to the USA, seemed to be a solution that crosses both changes. *Llorente & Cuenca* was influenced by pull factors such as access to new markets and the know-how from a more developed economy (USA) – sustained by the bright future ahead of the industry. And finally, by push factors, related to the slowdown in Latin America's growth.

Considering that the USA host the ultimate technologies, methodologies and knowledge available in the industry, *Llorente & Cuenca* has the opportunity to expand horizontally the scope of the company. The motives behind this international move were resource and asset-seeking motives (see **Appendix 18**), meaning to gain access to knowledge and to technological and managerial know-how available in a key market (USA). With the acquisition in Miami, the company was able not only to enter a new geography, but also to develop and diversify its service offer as can be visualized in the *Ansoff's Matrix* (see **Appendix 19**). Aligned with the amplified importance of communication and reputation today, *Llorente & Cuenca* will continue to be able to reposition itself progressively closer to management consultancies and to

consequently price higher. The ultimate goal will be that clients require the company's services in their decision-making, as it happens for management consultancies.

Furthermore, *Llorente & Cuenca* was able to bring more revenues and to boost growth in the existing Latin American operations (market-seeking motives) thanks to clients in the USA who want to do business in the region. The company's expertise and extended network of offices in Latin America represented a huge source of value creation for USA-based clients interested in Latin America. Besides, by being present in the largest market for the public relations industry worldwide (USA), the company was able to diversify its geographical markets portfolio and to reduce its high dependency on Latin American markets

This strategy is in accordance with the future of the industry and seems to be the right path for *Llorente & Cuenca*. However, it may also carry some challenges for the company along with the cultural fit in the USA. Overlooking the limits to firm scope and misunderstanding relatedness often leads horizontal diversification to fail. It is crucial that the company studies meticulously if acting closer to clients' decision-makers and competing in line with management consultancies will add value and be understood by its clients. Also, the company must be sure of its aptitude to leverage human resources. Considering the importance of recruiting and retaining the right talent in public relations agencies, *Llorente & Cuenca* needs to be sure of its ability to train and hire professionals with the necessary skills. Finally, it is important that the firm doesn't overestimate its ability to compete in a highly profitable market (USA). *Llorente & Cuenca*'s expansion in Brazil is a good example of how entering culturally different and highly competitive markets can bring superior challenges for the company.

6. Critically discuss the importance of the company's international human resource management strategy and identify the company's core competences.

A well-crafted internationalization strategy should balance out not only external, but also internal analysis. Generally business strategy is defined by top managers, but employees are the ones executing and implanting it. As for *Llorente & Cuenca*, a professional services

company, this is an even more important consideration. Two key success factors of the company's internationalization are the fact that it invests a lot in talent and it moves people around different operations. The company foments solid values and a strong culture in all offices which provides a basis for mutual understanding and implicit contracts between employees and the company. Finally, the *Partnership Model* is another important success factor in this matter. Becoming a partner is at the reach of all employees of *Llorente & Cuenca*, which exponentially increases job performance and brings stability and loyalty to the business. This is intrinsically linked with superior value creation for customers, since having motivated professionals allows the company to deliver better services for clients.

RECOMENDATIONS

The Case Study can be used for several other analysis besides the ones presented in the previous assignment questions. Additionally, each part of Case Study can be studied more closely in order to teach a specific model or topic within courses of strategy and international business. The complex, diverse and successful internationalization process of *Llorente & Cuenca* is a real example of how a company can deal with the challenges of a constantly changing competitive environment when investing abroad. Furthermore, the Case Study illustrates how different international strategies can be applied in different moments and how there is no “right way” but yet “right timing” and “right place”.

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NOTE: The four interviews above stated refer to conference calls scheduled between the author and the founder and three partners of *Llorente & Cuenca*. Each interview had the duration of about one hour and the topic covered was the *Internationalization Process of Llorente & Cuenca*. It is important to mention that part of the information present in the Case Study is based on the four interviews.

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Appendixes

NOTE: The appendixes attached with the source “*Llorente & Cuenca*” refer to information provided by the company to the author.

Appendix 1 – *Llorente & Cuenca*’s market positions in 2018.

| Market Position | Countries |
|-----------------|---|
| Number 1 | Spain, Portugal, Panama, Dominican Republic, Peru |
| Number 2 | Argentina, Mexico, Ecuador |
| Number 3 | Colombia |
| Top 5 | Miami |
| Top 10 | Chile |
| Top 15 | Brazil |

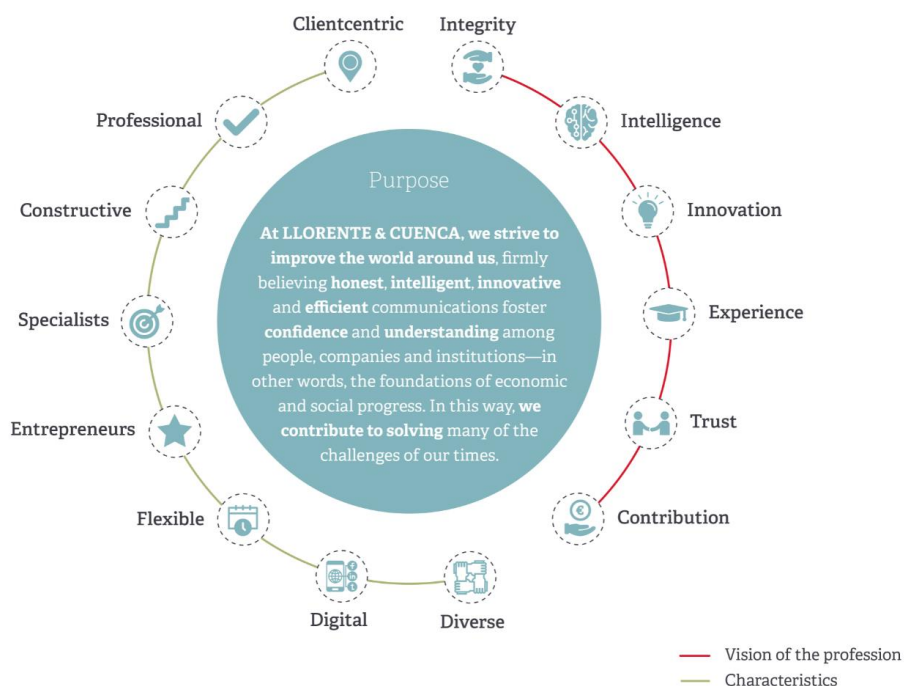
Source: *Llorente & Cuenca*

Appendix 2 – *Llorente & Cuenca*’s specialization areas.



Source: *Llorente & Cuenca*’s official website

Appendix 3 – Llorente & Cuenca’s purpose and core beliefs.



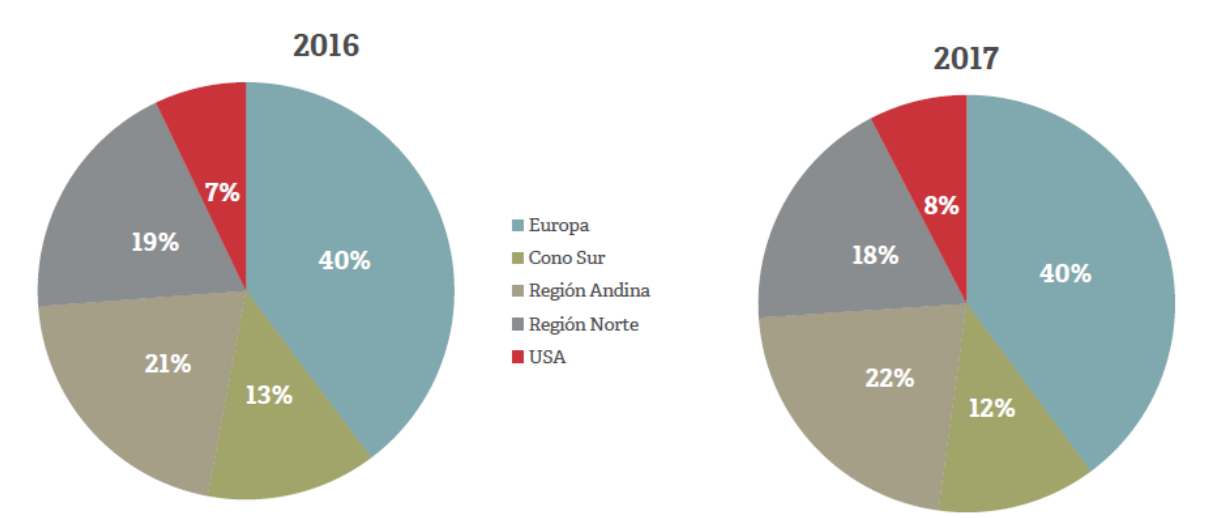
Source: Llorente & Cuenca’s official website

Appendix 4 – Llorente & Cuenca’s own offices and collaboration agreements in 2018.



Source: Llorente & Cuenca’s official website

Appendix 5 – Llorente & Cuenca’s Actual 2017 / Actual 2016 Fees per Region.



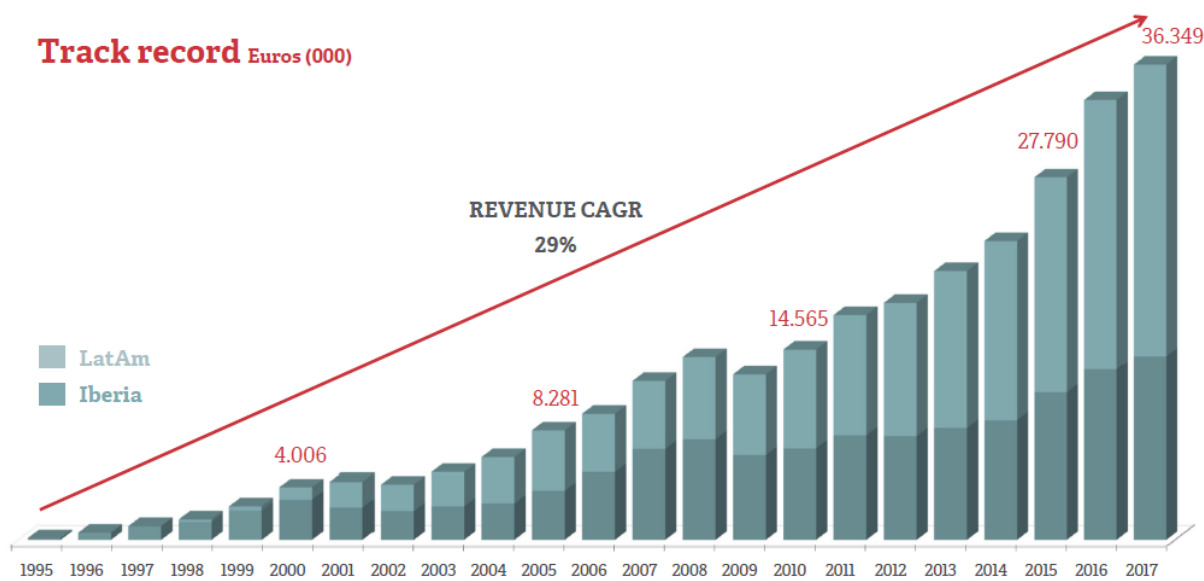
Source: Llorente & Cuenca

Appendix 6 – Llorente & Cuenca’s examples of clients and total clients in 2018.



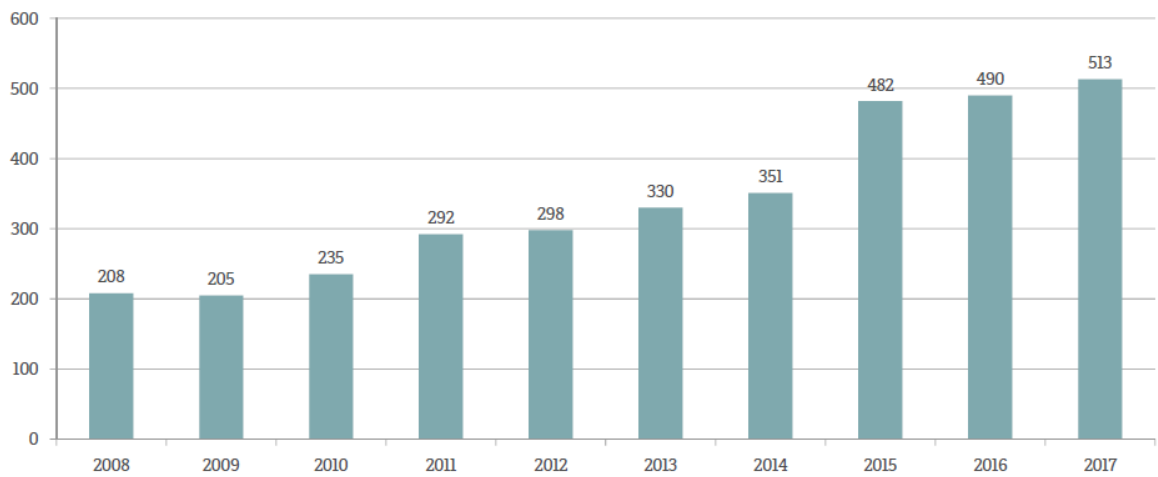
Source: Llorente & Cuenca’s official website

Appendix 7 – Llorente & Cuenca’s revenues evolution at constant exchange rate in 1995-2017.



Source: Llorente & Cuenca

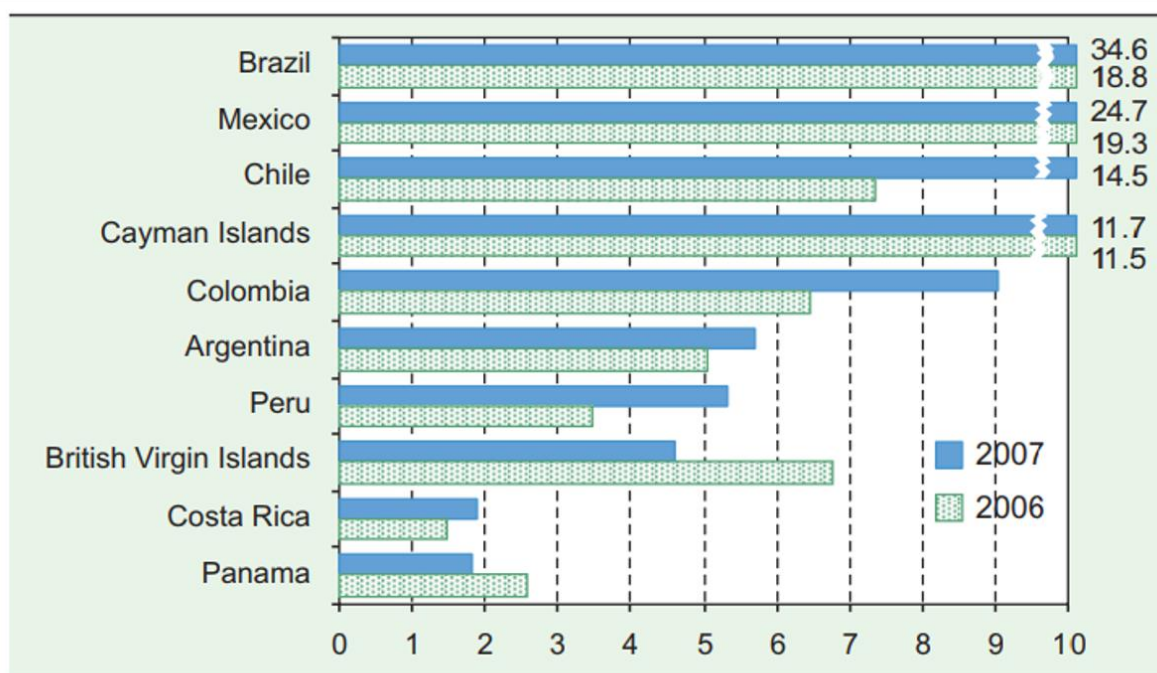
Appendix 8 – Llorente & Cuenca’s evolution of the number of employees 2008-2017.



Source: Llorente & Cuenca

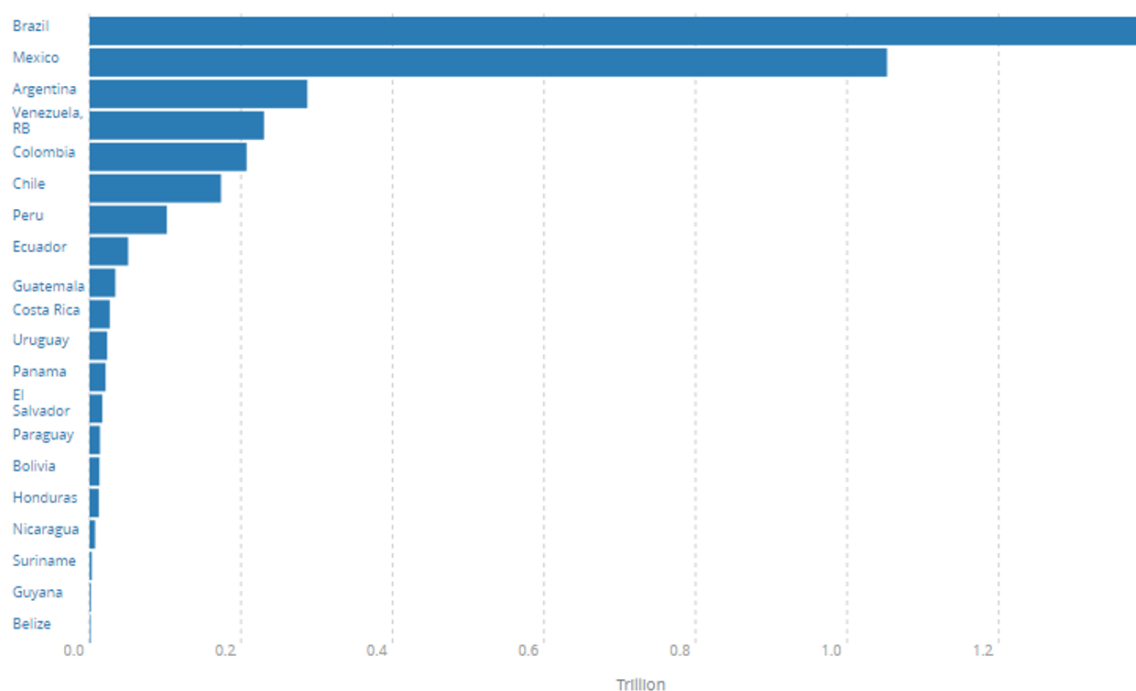
Appendix 9 – Brazil and Mexico compared to the rest of Latin America in 2007.

Latin America: top 10 recipients of FDI inflows 2006-2007 (billions of dollars)



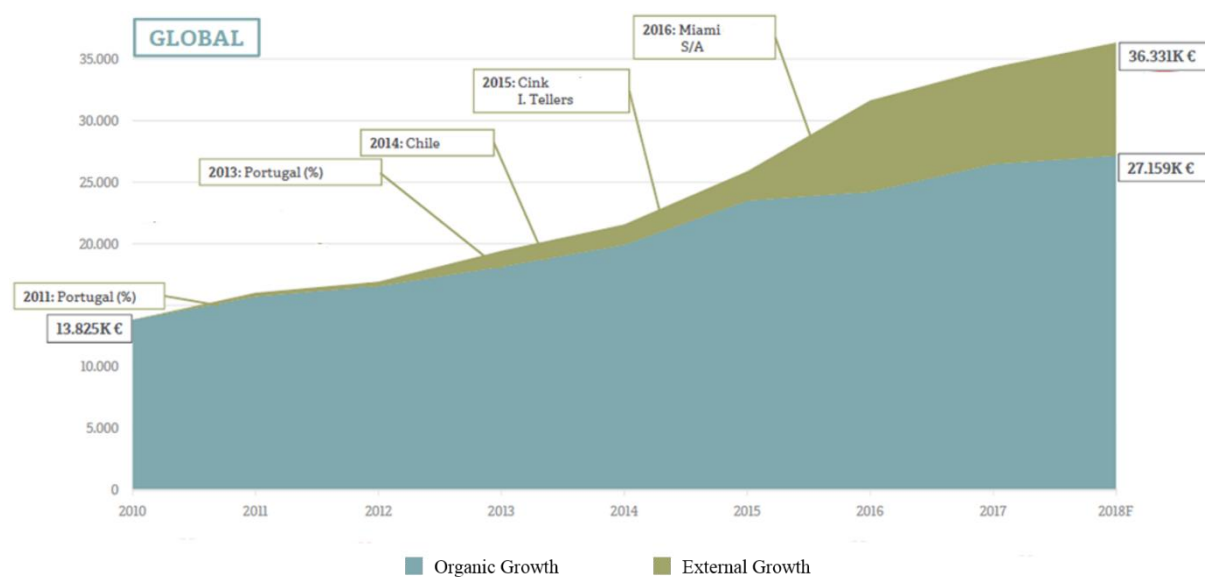
Source: United Nations, *World Investment Report 2008*

Latin America: GDP (current US\$) per country in 2007



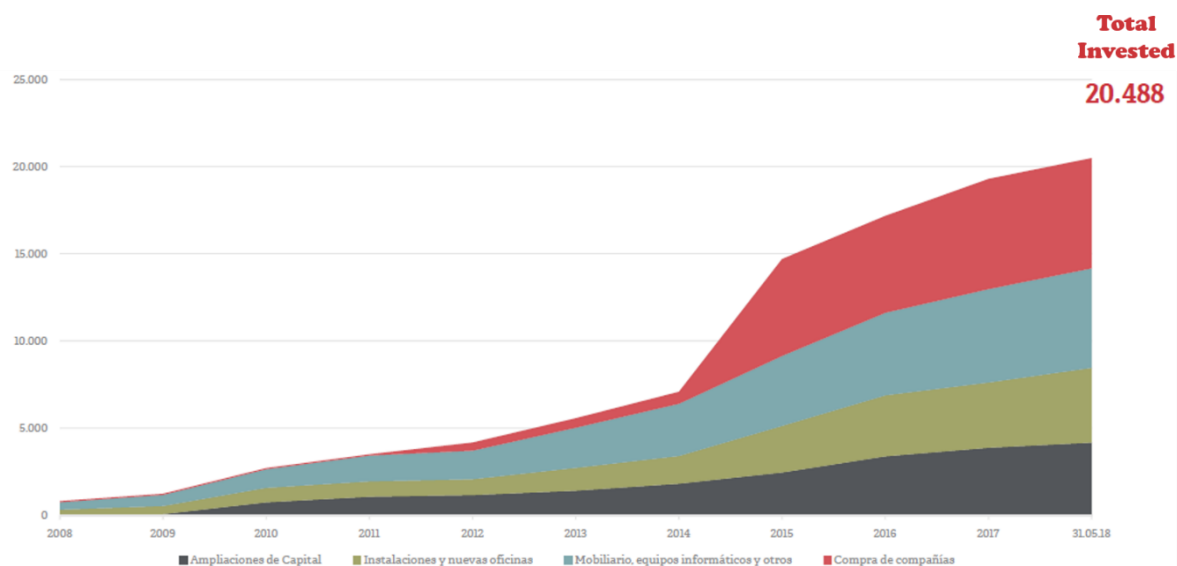
Source: *The World Bank*

Appendix 10 – Llorente & Cuenca’s Average Annual Growth and Acquisitions 2010-2017
 €(000).



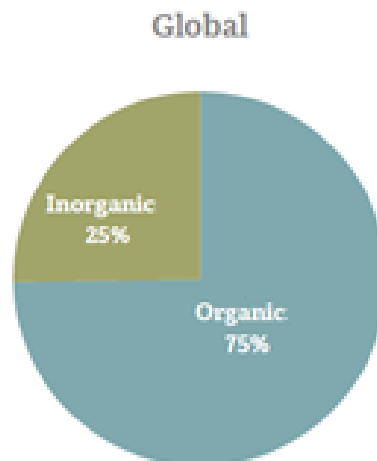
Source: Llorente & Cuenca

Appendix 11 – Llorente & Cuenca’s Total Accumulated Investment 2008-2017 €(000).



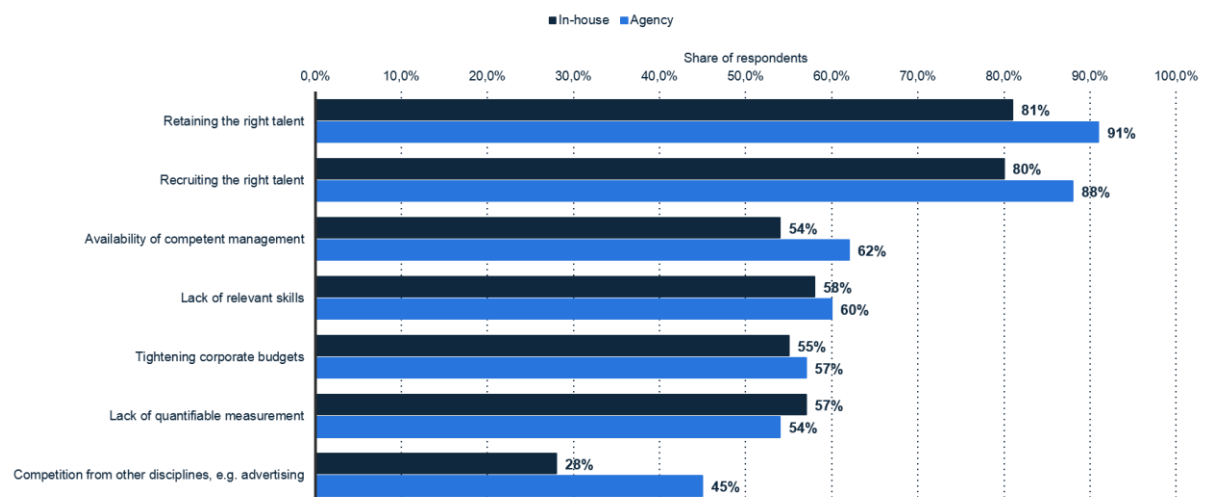
Source: Llorente & Cuenca

Appendix 12 – *Llorente & Cuenca*'s percentage of organic and inorganic growth in 2017.



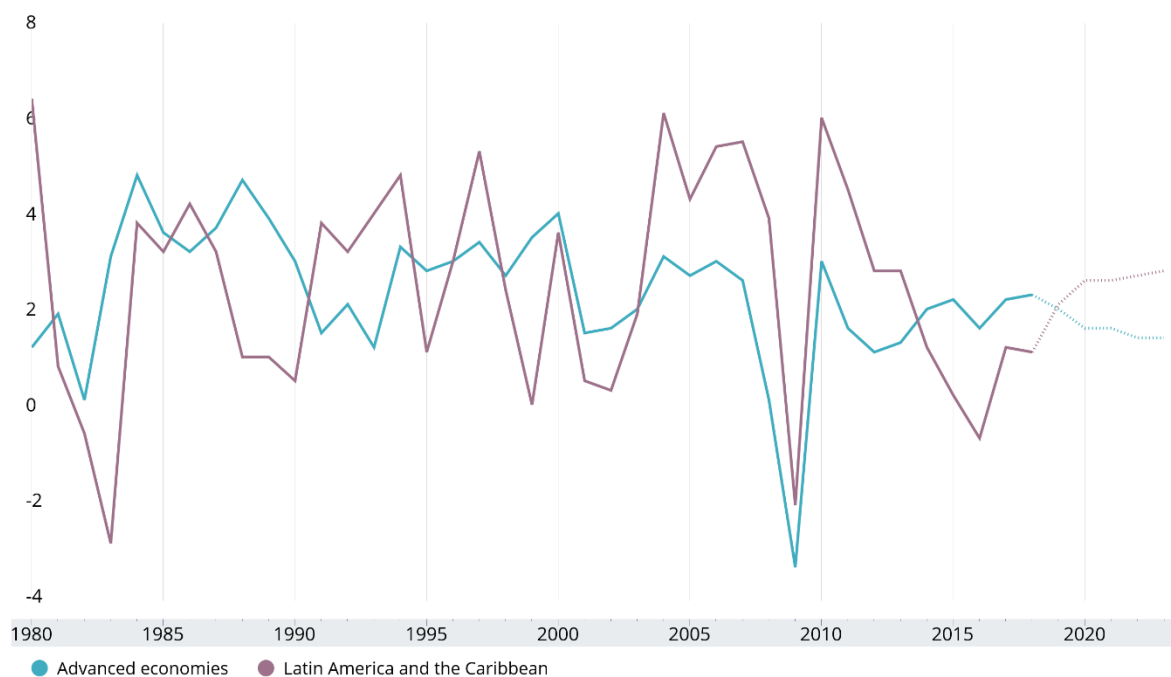
Source: *Llorente & Cuenca*

Appendix 13 – PR industry challenges according to PR professionals in 2017.



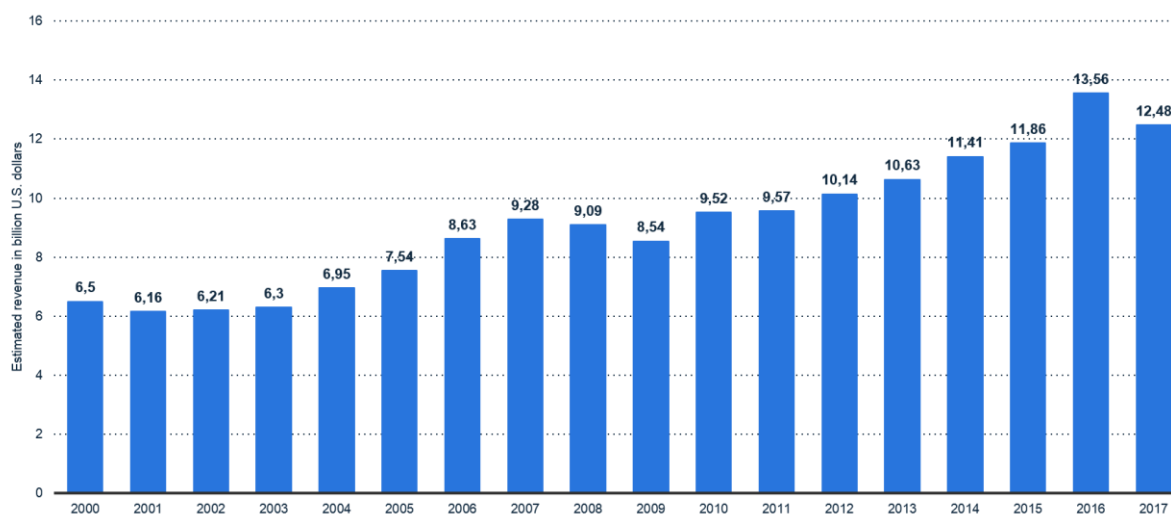
Source: Statista, *Public Relations 2018*

Appendix 14 – Advanced Economies VS Latin America and the Caribbean: real GDP growth 1980-2020 (annual % change).



Source: IMF, *World Economic Outlook 2018*

Appendix 15 – Estimated aggregate revenue of USA PR agencies from 2000 to 2017 (in billion U.S. dollars)



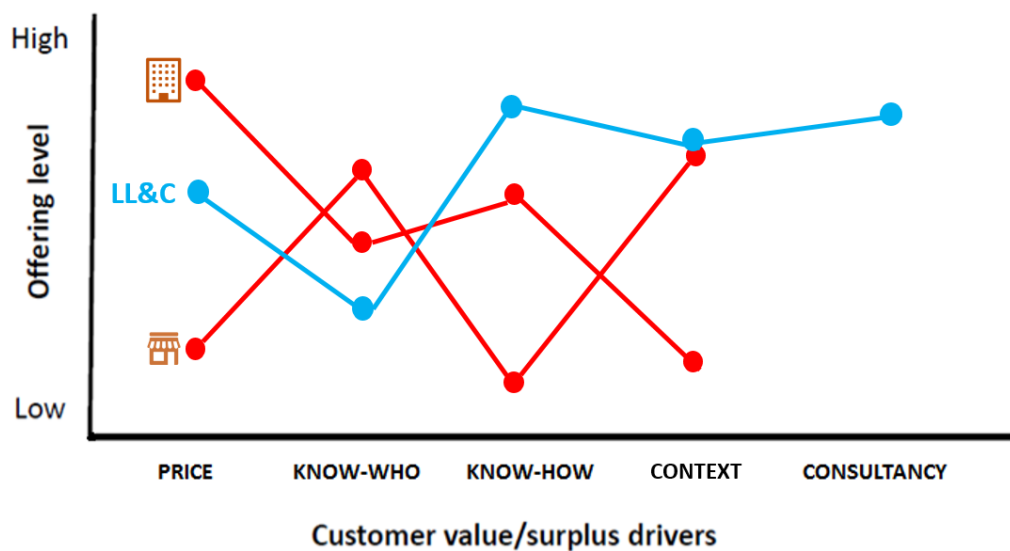
Source: Statista, *Public Relations 2018*

Appendix 16 –Llorente & Cuenca’s three internationalization stages.



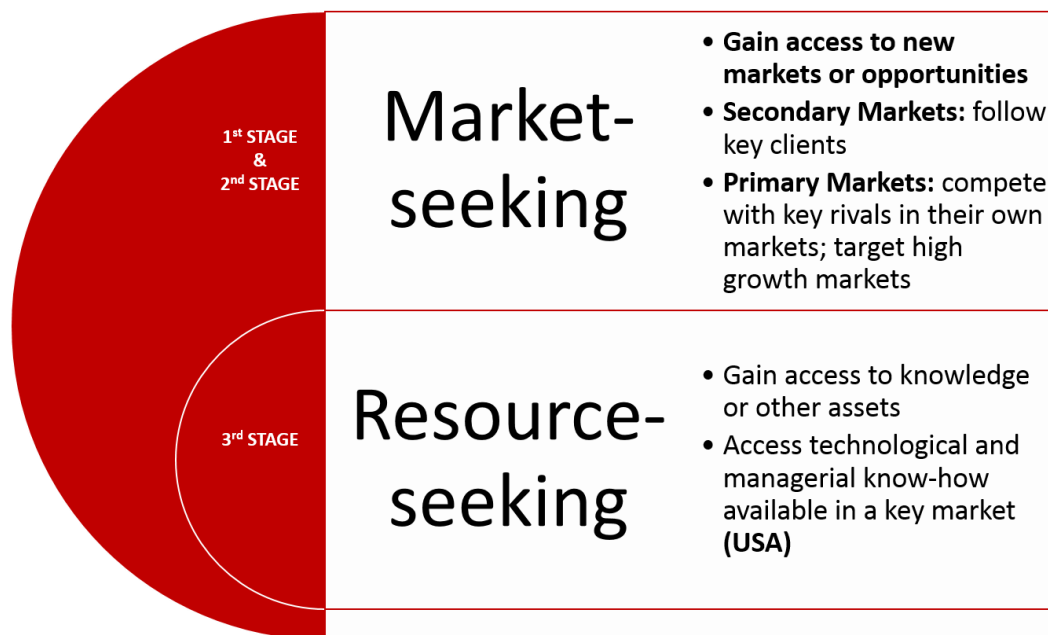
Source: Author, Teresa Silva 2018

Appendix 17 – Strategy Canvas with the new value curve *Llorente & Cuenca* brought to Latin America in the 90's, based on 5 competing factors.



Source: Author, Teresa Silva 2018

Appendix 18 – *Llorente & Cuenca*'s motives to internationalize in the 3 stages of its internationalization process.



Source: Author, Teresa Silva 2018

Appendix 19 – Horizontal diversification *Ansoff's Matrix* for *Llorente & Cuenca*.

| | EXISTING SERVICE | NEW SERVICE |
|-----------------|--|--|
| EXISTING MARKET | Market Penetration: All stages | Service Development: 3 rd stage |
| NEW MARKET | Market Expansion: All stages | Service-Market Diversification: USA |

Source: Author, Teresa Silva 2018